

CITY OF ALTURAS
ALTURAS, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Governmental Funds - Balance Sheet	13
Reconciliation of the Governmental Funds - Balance Sheet with the Governmental Activities Statement of Net Position	14
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities	16
Proprietary Funds – Statement of Net Position	17
Proprietary Funds - Statement of Revenues, Expenses, and Changes in Fund Net Position	18
Proprietary Funds - Statement of Cash Flows	19
Notes to Basic Financial Statements	20-37
Required Supplemental Information:	
General Fund – Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual	38
Schedule of the City's Proportionate Share of Net Pension Liability	39
Schedule of Contributions	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	41-42

INDEPENDENT AUDITORS' REPORT

To the Honorable Members
of the City Council
City of Alturas
Alturas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Alturas, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Alturas's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to City of Alturas's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Alturas's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information and, where applicable, cash flows of City of Alturas, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-10) and the required supplementary information (pages 38-40), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018, on our consideration of City of Alturas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

R. J. Ricciardi, Inc.

R. J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 18, 2018

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

The following discussion provides readers of City of Alturas's (the City's) financial statements a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. Please read this document in conjunction with the accompanying Basic Financial Statements.

FISCAL YEAR 2018 FINANCIAL HIGHLIGHTS

Financial highlights of fiscal year 2018 include the following:

Entity-wide:

- The City's total assets were \$13,989,518 as of June 30, 2018. Of this total, \$6,161,018 were Governmental assets and \$7,828,500 were Business-type assets.
- Entity-wide Governmental revenues include program revenues of \$1,156,508 and general revenues and transfers of \$1,566,290, for a total of \$2,722,798.
- Entity-wide Governmental expenses were \$2,769,633.
- Entity-wide Business-type program revenues, transfers, other revenue and interest revenue were \$1,635,471 while Business-type expenses were \$1,759,295.

Fund Level:

- Governmental Fund balances decreased \$36,418 in fiscal year 2018.
- Governmental Fund revenues decreased \$604,920 in fiscal year 2018.
- Governmental Fund expenditures decreased \$512,415 in fiscal year 2018.

General Fund:

- General Fund revenues of \$1,376,792 represented a decrease of \$81,062 from the prior year.
- General Fund expenditures of \$1,386,766 represented an increase of \$181,389 from the prior year.
- General Fund balance of \$585,872 as of June 30, 2018, was \$64,415 less than fiscal year 2017's fund balance.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is divided into two parts:

- 1) Management's Discussion and Analysis (MD&A);
- 2) The Basic Financial Statements, which include the Entity-wide and the Fund Financial Statements, along with the Notes to these financial statements.

The Basic Financial Statements

The Basic Financial Statements comprise the Entity-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

The Entity-wide Financial Statements provide a longer-term view of the City's activities as a whole, and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all of its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all of the City's revenues and all of its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

All of the City's activities are grouped into Governmental Activities and Business-type Activities, as explained below. The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities for the City as a whole.

The Fund Financial Statements report the City's operations in more detail than the Entity-wide statements and focus primarily on the short-term activities of the City's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major Funds account for the major financial activities of the City and are presented individually, while the activities of Non-major Funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. Major Funds are explained below.

The Entity-wide Financial Statements

Entity-wide Financial Statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the City as a whole.

The Statement of Net Position and the Statement of Activities present information about the following:

- Governmental Activities – All of the City's basic services are considered to be governmental activities. These services are supported by general City revenues such as taxes and by specific program revenues such as user fees and charges.
- Business-type Activities – The City's enterprise activities of water and wastewater are reported in this area. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called Major Funds. The concept of Major Funds, and the determination of which are Major Funds, was established by Governmental Accounting Standards Board (GASB) Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major Funds. Major Funds present the major activities of the City for the year, and may change from year-to-year as a result of changes in the pattern of the City's activities.

In the City's case, there are four major governmental funds: the General Fund, John Wall Trust, Wind Damage Fund and the Special Road Fund.

The City's Enterprise Funds are reported as Major Funds.

Fund Financial Statements include governmental and proprietary funds as discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

Proprietary Funds Financial Statements are prepared on the full accrual basis, as in the past, and include all of their assets and liabilities, current and long-term.

Comparisons of Budget and Actual financial information are presented only for the General Fund, as required by GASB Statement 34.

FINANCIAL ACTIVITIES OF THE CITY AS A WHOLE

This analysis focuses on the net position and changes in net position of the City as a whole. Tables 1 and 2 focus on the City's Governmental Statement of Net Position and Statement of Activities, while Tables 3 and 4 focus on the City's Business-type Statement of Net Position and Statement of Activities.

Governmental Activities

Table 1
Governmental Net Position at June 30

	2018	2017
Current assets	\$ 4,476,695	\$ 4,474,449
Capital assets, net of depreciation	<u>1,684,323</u>	<u>1,654,551</u>
Total assets	<u>6,161,018</u>	<u>6,129,000</u>
Deferred outflows	<u>535,466</u>	<u>469,622</u>
Current liabilities	119,964	106,129
Long-term liabilities	<u>1,861,514</u>	<u>1,741,593</u>
Total liabilities	<u>1,981,478</u>	<u>1,847,722</u>
Deferred inflows	<u>133,068</u>	<u>151,695</u>
Net position:		
Invested in capital assets, net of debt	1,684,323	1,654,551
Restricted	3,811,241	3,783,516
Unrestricted	<u>(913,626)</u>	<u>(809,294)</u>
Total net position	<u>\$ 4,581,938</u>	<u>\$ 4,628,773</u>

The City's governmental net position amounted to \$4,581,938 as of June 30, 2018, a change of \$46,835 from 2017. This difference is the Change in Net Position reflected in the Governmental Activities column of the Statement of Activities shown in Table 2.

The City's governmental net position as of June 30, 2018 comprised the following:

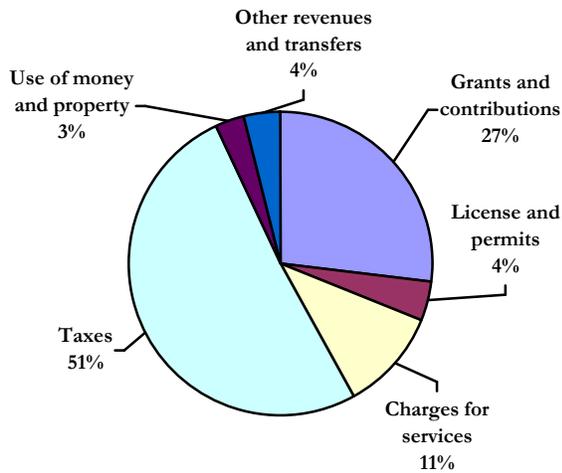
- Cash and investments of \$4,222,318 in the city treasury. Substantially all of these amounts were held in short term investments in government securities, as detailed in Note 2 to the financial statements.
- Other assets comprise current receivables of \$190,626, notes receivable of \$25,553 and fuel inventory of \$38,198.
- Capital assets of \$1,684,323, net of depreciation charges, which includes all the City's capital assets used in governmental activities.
- Current liabilities, including accounts payable, claims and other amounts due currently, totaling \$119,964.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Fiscal Year Ended June 30, 2018

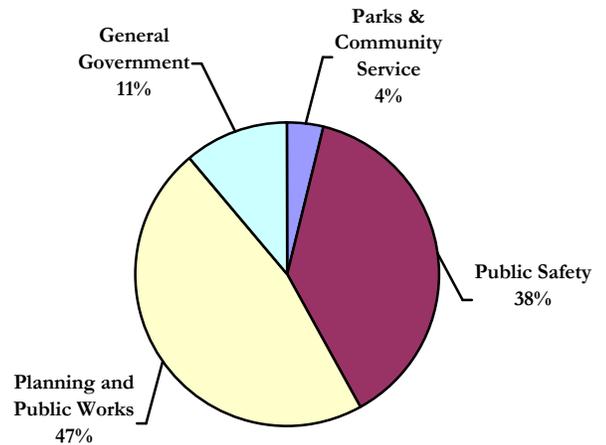
- Net position invested in capital assets, net of related debt, of \$1,684,323, representing the City's investment in capital assets used in Governmental Activities, net of amounts borrowed to finance that investment.
- Restricted net position totaling \$3,811,241, which may be used only to construct specified capital projects, for debt service, or for community development projects. The restrictions on these funds were placed there by outsiders and cannot be changed by the City.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements or restrictions. The City had (\$913,626) of unrestricted net position as of June 30, 2018.

GOVERNMENTAL ACTIVITIES

Sources of Revenues



Functional Expenses



The Functional Expenses Chart includes only current year expenses; it does not include capital outlays, which are now added to the City's capital assets. As the Chart shows, general government is \$313,177, or 11%, of total government expenses, planning and public works is \$1,296,056, or 47%, Public Safety is \$1,060,026, or 38%, and Parks and Community Services is \$100,374, or 4%.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Table 2
Changes in Governmental Net Position

	Governmental Activities 2018	Governmental Activities 2017
	<u>2018</u>	<u>2017</u>
<u>Expenses</u>		
General government	\$ 313,177	\$ 273,116
Public safety	1,060,026	672,299
Planning and public works	1,296,056	2,340,480
Parks and community services	<u>100,374</u>	<u>58,210</u>
Total expenses	<u>2,769,633</u>	<u>3,344,105</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	421,002	279,821
Operating grants and contributions	<u>735,506</u>	<u>1,323,411</u>
Total program revenues	<u>1,156,508</u>	<u>1,603,232</u>
General revenues:		
Taxes	1,398,865	1,605,140
Other revenues	94,632	73,917
Interest income	<u>72,793</u>	<u>45,429</u>
Total general revenues	<u>1,566,290</u>	<u>1,724,486</u>
Total revenues	<u>2,722,798</u>	<u>3,327,718</u>
Change in net position	<u>\$ (46,835)</u>	<u>\$ (16,387)</u>

As the Sources of Revenue Chart and Table 2 above show, \$1,156,508, or 42%, of the City's fiscal year 2018 governmental revenue, came from program revenues and \$1,566,290, or 58%, came from general revenues such as taxes and interest and transfers.

Program revenues were composed of charges for services of \$421,002, which include permit revenues, fees and charges used to fund expenses incurred in providing services; and \$735,506 of grants and contributions which include streets, roads, housing, fire and police grants.

General revenues are not allocable to programs. General revenues are used to pay for the net cost of governmental programs.

Business-type Activities

The Statement of Net Position and Statement of Activities present a summary of the City's Business-type Activities that are composed of the City's enterprise funds.

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Table 3
Business-type Net Position at June 30

	<u>Business-type 2018</u>	<u>Business-type 2017</u>
Current assets	\$ 2,304,929	\$ 2,068,793
Capital assets, net of accumulated depreciation	<u>5,523,571</u>	<u>5,809,889</u>
Total assets	<u>7,828,500</u>	<u>7,878,682</u>
Deferred outflows	<u>408,712</u>	<u>286,430</u>
Current liabilities	238,050	316,394
Long-term debt outstanding	<u>4,422,242</u>	<u>4,386,427</u>
Total liabilities	<u>4,660,292</u>	<u>4,702,821</u>
Deferred inflows	<u>50,635</u>	<u>85,224</u>
Net position:		
Invested in capital assets	2,517,975	2,617,398
Restricted for debt service	-	115,983
Unrestricted	<u>1,200,872</u>	<u>830,581</u>
Total net position	<u>\$ 3,718,847</u>	<u>\$ 3,563,962</u>

The net position of business-type activities increased by \$154,885 in fiscal year 2018.

Table 4
Changes in Business-Type Net Position

	<u>Business-Type Activities 2018</u>	<u>Business-Type Activities 2017</u>
<u>Expenses</u>		
Water	\$ 788,327	\$ 1,204,645
Sewer	<u>722,131</u>	<u>770,677</u>
Total expenses	<u>1,510,458</u>	<u>1,975,322</u>
<u>Revenues</u>		
Program revenues:		
Charges for services	<u>1,632,025</u>	<u>1,621,111</u>
Total program revenues	<u>1,632,025</u>	<u>1,621,111</u>
General revenues:		
Interest income	<u>33,318</u>	<u>14,360</u>
Total general revenues	<u>33,318</u>	<u>14,360</u>
Total revenues	<u>1,665,343</u>	<u>1,635,471</u>
Change in net position	<u>\$ 154,885</u>	<u>\$ (339,851)</u>

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Analyses of Major Funds

Governmental Funds

General Fund

General Fund revenues decreased \$81,062 this fiscal year. Actual revenues were less than budgeted amounts. Tax revenues decreased \$146,852 due to the business environment in the City.

General Fund expenditures were \$1,386,766, an increase of \$181,389 from the prior year. Expenditures were less than budgeted amounts.

As of June 30, 2018, the General Fund's fund balance totaled \$650,015. The unassigned portion of fund balance represents available liquid resources.

Special Road Fund

This fund accounts for road projects funded by governmental grants and taxes. In fiscal year 2018, the fund received \$269,303 in taxes.

John Wall Trust Fund

This fund accounts for youth projects funded by the estate of John Wall. In fiscal year 2018, the fund earned \$32,930 from investments.

Other Governmental Funds

These funds are not presented separately in the basic financial statements.

Proprietary Funds

Water Fund

Revenues decreased \$3,630 in fiscal year 2018, while expenses decreased \$301,091.

Sewer Fund

Net position of the Sewer Fund increased \$17,625 in fiscal year 2018. Operating revenues increased \$11,544. Expenses decreased \$33,712. As of June 30, 2018, the fund's net position was \$1,206,155.

GENERAL FUND BUDGETARY HIGHLIGHTS

It is the City's policy to amend the budget at year end to match the actual amounts. The amendments are approved by the City Council. The original budget was not modified during the fiscal year ended June 30, 2018.

CAPITAL ASSETS

GASB Statement 34 requires the City to record all its capital assets including infrastructure, which was not recorded in prior years. Infrastructure includes roads, bridges, signals and similar assets used by the entire population.

In fiscal year 2018, the City reported the cost of all its infrastructure assets and computed the amount of accumulated depreciation for these assets based on their original acquisition dates. At the end of fiscal year 2018 the cost of infrastructure and other capital assets recorded on the City's financial statements was as shown in Table 5 below:

City of Alturas
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

Table 5
Capital Assets at Year-end

	Balance at June 30, 2018	Balance at June 30, 2017
<u>Governmental Activities</u>		
Land	\$ 80,000	\$ 80,000
Streets and roads	2,836,814	2,711,812
Buildings	580,161	580,161
Equipment	1,938,070	1,738,982
Less: accumulated depreciation	(3,750,722)	(3,456,404)
Governmental activity capital assets, net	\$ 1,684,323	\$ 1,654,551
<u>Business-type Activities</u>		
Wells	\$ 32,000	\$ 32,000
Water lines	5,576,948	5,576,948
Plant and equipment	6,388,426	6,388,426
Less: accumulated depreciation	(6,473,803)	(6,187,485)
Business-type activity capital assets, net	\$ 5,523,571	\$ 5,809,889

Detail on capital assets and current year additions can be found in Note 4.

The City depreciates all its capital assets over their estimated useful lives, as required by GASB Statement 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on depreciable lives may be found in Note 4 to the financial statements.

DEBT ADMINISTRATION

The City made all scheduled repayments of existing debt. Each of the City's debt issues are discussed in detail in Note 5 to the financial statements.

As of June 30, 2018, the City's debt comprised:

Table 6
Outstanding Debt

	June 30, 2018	June 30, 2017
<u>Business-type Activity Debt:</u>		
U.S. Government loan:		
1992 City water lines, 3.4%, due 6/27/32	\$ 2,088,579	\$ 2,203,369
State Water Loan:		
2008 Waste Water Treatment Plan, 2.4%, due 7/10/28	917,017	989,122
Total	\$ 3,005,596	\$ 3,192,491

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Financial Report is intended to provide citizens, taxpayers, and creditors with a general overview of the City's finances. Questions about this report should be directed to the City of Alturas, at 200 North Street, Alturas, CA 96101.

City of Alturas
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and investments	\$ 4,222,318	\$ 2,125,331	\$ 6,347,649
Accounts receivable	190,626	179,598	370,224
Notes receivable	25,553	-	25,553
Fuel inventory	38,198	-	38,198
Non-depreciable capital assets	80,000	-	80,000
Depreciable capital assets, net	<u>1,604,323</u>	<u>5,523,571</u>	<u>7,127,894</u>
Total assets	<u>6,161,018</u>	<u>7,828,500</u>	<u>13,989,518</u>
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows related to pensions	<u>535,466</u>	<u>408,712</u>	<u>944,178</u>
<u>LIABILITIES</u>			
Accounts payable	48,336	-	48,336
Accrued interest	-	22,009	22,009
Deposits	30,996	-	30,996
Compensated absences	40,382	23,479	63,861
Other current liabilities	250	-	250
Long-term debt			
Due within one year	-	192,562	192,562
Due in more than one year	-	2,813,034	2,813,034
Net pension liability	<u>1,861,514</u>	<u>1,416,646</u>	<u>3,278,160</u>
Total liabilities	<u>1,981,478</u>	<u>4,467,730</u>	<u>6,449,208</u>
<u>DEFERRED INFLOWS</u>			
Deferred inflows related to pensions	<u>133,068</u>	<u>50,635</u>	<u>183,703</u>
<u>NET POSITION</u>			
Investment in capital assets, net of related debt	1,684,323	2,517,975	4,202,298
Restricted for:			
Grants, contributions, and funds for specific purpose	3,811,241	-	3,811,241
Unrestricted net position	<u>(913,626)</u>	<u>1,200,872</u>	<u>287,246</u>
Total net position	<u>\$ 4,581,938</u>	<u>\$ 3,718,847</u>	<u>\$ 8,300,785</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Total</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	
Governmental activities:							
General government	\$ 313,177	\$ -	\$ -	\$ -	\$ (313,177)		\$ (313,177)
Public safety	1,060,026	25,360	-	-	(1,034,666)		(1,034,666)
Planning and public works	1,296,056	107,630	735,506	-	(452,920)		(452,920)
Parks and community services	100,374	288,012	-	-	187,638		187,638
Total governmental activities	<u>2,769,633</u>	<u>421,002</u>	<u>735,506</u>	<u>-</u>	<u>(1,613,125)</u>		<u>(1,613,125)</u>
Business-type activities:							
Water	788,327	901,356	-	-		\$ 113,029	113,029
Sewer	722,131	730,669	-	-		8,538	8,538
Total business-type activities	<u>1,510,458</u>	<u>1,632,025</u>	<u>-</u>	<u>-</u>		<u>121,567</u>	<u>121,567</u>
Total	<u>\$ 4,280,091</u>	<u>\$ 2,053,027</u>	<u>\$ 735,506</u>	<u>\$ -</u>	<u>(1,613,125)</u>	<u>121,567</u>	<u>(1,491,558)</u>
General revenues:							
Sales taxes					584,257	-	584,257
Property taxes					353,763	-	353,763
Motor vehicle in-lieu					269,303	-	269,303
Occupancy taxes					191,542	-	191,542
Other revenues					94,632	-	94,632
Interest income					72,793	33,318	106,111
Total general revenues					<u>1,566,290</u>	<u>33,318</u>	<u>1,599,608</u>
Change in net position					(46,835)	154,885	108,050
Net position beginning of period					<u>4,628,773</u>	<u>3,563,962</u>	<u>8,192,735</u>
Net position ending of period					<u>\$ 4,581,938</u>	<u>\$ 3,718,847</u>	<u>\$ 8,300,785</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2018

	General	Special Road Fund	John Wall Trust	Wind Damage	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>						
Cash and investments	\$ 449,104	\$ 461,118	\$ 2,455,224	\$ 484,066	\$ 372,806	\$ 4,222,318
Taxes receivable	167,764	-	-	-	22,862	190,626
Notes receivable	-	-	25,553	-	-	25,553
Fuel inventory	-	-	-	-	38,198	38,198
Total assets	<u>\$ 616,868</u>	<u>\$ 461,118</u>	<u>\$ 2,480,777</u>	<u>\$ 484,066</u>	<u>\$ 433,866</u>	<u>\$ 4,476,695</u>
<u>LIABILITIES</u>						
Accounts payable	\$ -	\$ 1,819	25,553	\$ -	\$ 20,964	\$ 48,336
Deposits payable	30,996	-	-	-	-	30,996
Accrued liabilities	-	-	-	-	250	250
Total liabilities	<u>30,996</u>	<u>1,819</u>	<u>25,553</u>	<u>-</u>	<u>21,214</u>	<u>79,582</u>
<u>FUND BALANCES</u>						
Assigned for:						
Specific purposes	-	459,299	2,455,224	484,066	412,652	3,811,241
Unassigned	<u>585,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>585,872</u>
Total fund balances	<u>585,872</u>	<u>459,299</u>	<u>2,455,224</u>	<u>484,066</u>	<u>412,652</u>	<u>4,397,113</u>
Total liabilities and fund balances	<u>\$ 616,868</u>	<u>\$ 461,118</u>	<u>\$ 2,480,777</u>	<u>\$ 484,066</u>	<u>\$ 433,866</u>	<u>\$ 4,476,695</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEET
 with the Governmental Activities
STATEMENT OF NET POSITION
 For the year ended June 30, 2018

TOTAL FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 4,397,113

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. 1,684,323

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Deferred outflows	535,466
Deferred inflows	(133,068)
Net pension liability	(1,861,514)
Non-current portion of compensated absences	<u>(40,382)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 4,581,938

The accompanying notes are an integral part of these financial statements.

City of Alturas
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
For the year ended June 30, 2018

	General	Special Road Fund	John Wall Trust	Wind Damage	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 1,134,740	\$ 269,303	\$ -	\$ -	\$ -	\$ 1,404,043
Licenses and permits	107,630	-	-	-	-	107,630
Fines and forfeitures	20,545	-	-	-	4,815	25,360
Charges for services	-	-	-	-	288,012	288,012
Interest income	22,891	5,170	32,930	5,428	6,374	72,793
Intergovernmental revenue	65,503	2,600	-	-	667,403	735,506
Other revenues	25,483	5,326	-	34,826	23,820	89,455
Total revenues	<u>1,376,792</u>	<u>282,399</u>	<u>32,930</u>	<u>40,254</u>	<u>990,424</u>	<u>2,722,799</u>
Expenditures:						
Current:						
General government	302,875	-	10,302	-	-	313,177
Public safety	1,035,106	-	-	-	313,558	1,348,664
Planning and public works	48,785	177,375	-	120,797	650,045	997,002
Parks and community services	-	-	-	-	100,374	100,374
Total expenditures	<u>1,386,766</u>	<u>177,375</u>	<u>10,302</u>	<u>120,797</u>	<u>1,063,977</u>	<u>2,759,217</u>
Excess (deficit) of revenues over (under) expenditures	<u>(9,974)</u>	<u>105,024</u>	<u>22,628</u>	<u>(80,543)</u>	<u>(73,553)</u>	<u>(36,418)</u>
Other financing sources (uses):						
Transfers in	-	-	-	-	145,677	145,677
Transfers out	(54,171)	(55,000)	-	-	(36,506)	(145,677)
Total other financing sources (uses)	<u>(54,171)</u>	<u>(55,000)</u>	<u>-</u>	<u>-</u>	<u>109,171</u>	<u>-</u>
Net change in fund balances	(64,145)	50,024	22,628	(80,543)	35,618	(36,418)
Fund balances, beginning of period	<u>650,017</u>	<u>409,275</u>	<u>2,432,596</u>	<u>564,609</u>	<u>377,034</u>	<u>4,433,531</u>
Fund balances, end of period	<u>\$ 585,872</u>	<u>\$ 459,299</u>	<u>\$ 2,455,224</u>	<u>\$ 484,066</u>	<u>\$ 412,652</u>	<u>\$ 4,397,113</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
STATEMENT OF ACTIVITIES
 For the year ended June 30, 2018

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(36,418)
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Purchases of capital assets are added back to the fund balance		324,090
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Depreciation expense is deducted from the fund balance		(294,317)
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ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in the governmental funds (net change):

Pension expense		(35,452)
Long-term compensated absences		(4,737)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>(46,834)</u>
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The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF NET POSITION
 June 30, 2018

	Business-type Activities Enterprise Funds		Totals
	Sewer	Water	
<u>ASSETS</u>			
Current assets:			
Cash and investments	\$ 217,759	\$ 1,907,572	\$ 2,125,331
Accounts receivable	274	179,324	179,598
Total current assets	218,033	2,086,896	2,304,929
Non-current assets:			
Capital assets, net of accumulated depreciation	2,409,021	3,114,550	5,523,571
Total assets	2,627,054	5,201,446	7,828,500
<u>DEFERRED OUTFLOWS</u>			
Deferred outflows related to pensions	181,555	227,157	408,712
<u>LIABILITIES</u>			
Current liabilities:			
Accrued interest	22,009	-	22,009
Compensated absences	8,794	14,685	23,479
Current maturities of long-term debt:			
USDA facility loan	73,835	-	73,835
FMHA Water Line Project Loan	-	118,727	118,727
Total current liabilities	104,638	133,412	238,050
Long-term liabilities			
FMHA Water Line Project Loan	-	1,969,852	1,969,852
USDA facility loan	843,182	-	843,182
Net pension liability	632,042	784,604	1,416,646
Total liabilities	1,579,862	2,887,868	4,467,730
<u>DEFERRED INFLOWS</u>			
Deferred inflows related to pensions	22,592	28,043	50,635
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	1,492,004	1,025,971	2,517,975
Unrestricted	(285,849)	1,486,721	1,200,872
Total net position	\$ 1,206,155	\$ 2,512,692	\$ 3,718,847

The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN FUND NET POSITION
 For the year ended June 30, 2018

	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ 730,669	\$ 886,584	\$ 1,617,253
Other	<u>-</u>	<u>14,772</u>	<u>14,772</u>
Total operating revenues	<u>730,669</u>	<u>901,356</u>	<u>1,632,025</u>
 Operating expenses:			
Personnel services	119,334	196,322	315,656
Materials, supplies, rent and services	261,003	330,096	591,099
Repair and maintenance	50,493	39,640	90,133
Depreciation	276,198	148,322	424,520
Other	<u>9,891</u>	<u>-</u>	<u>9,891</u>
Total operating expenses	<u>716,919</u>	<u>714,380</u>	<u>1,431,299</u>
 Operating income (loss)	<u>13,750</u>	<u>186,976</u>	<u>200,726</u>
 Non-operating revenues (expenses):			
Interest income	9,087	24,231	33,318
Interest expense	<u>(5,212)</u>	<u>(73,947)</u>	<u>(79,159)</u>
Total non-operating revenues (expenses)	<u>3,875</u>	<u>(49,716)</u>	<u>(45,841)</u>
 Change in net position	17,625	137,260	154,885
 Net position, beginning of period	<u>1,188,530</u>	<u>2,375,432</u>	<u>3,563,962</u>
Net position, end of period	<u>\$ 1,206,155</u>	<u>\$ 2,512,692</u>	<u>\$ 3,718,847</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
 PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
 For the year ended June 30, 2018

	Business-type Activities		
	Enterprise Funds		
	Sewer	Water	Total
Cash flows from operating activities:			
Receipts from customers	\$ 730,462	\$ 903,280	\$ 1,633,742
Payments to suppliers	(392,103)	(320,386)	(712,489)
Payments to employees	(93,062)	(158,632)	(251,694)
Net cash provided (used) by operating activities	<u>245,297</u>	<u>424,262</u>	<u>669,559</u>
Cash flows from capital and related financing activities:			
Principal payments on capital debt	(72,105)	(114,790)	(186,895)
Acquisition of capital assets	(138,202)	-	(138,202)
Interest paid on capital debt	(14,626)	(73,947)	(88,573)
Net cash provided (used) by capital and related financing activities	<u>(224,933)</u>	<u>(188,737)</u>	<u>(413,670)</u>
Cash flows from investing activities:			
Interest earned	9,087	24,231	33,318
Net cash provided by investing activities	<u>9,087</u>	<u>24,231</u>	<u>33,318</u>
Net increase (decrease) in cash and cash equivalents	29,451	259,756	289,207
Cash and cash equivalents - beginning of period	<u>188,308</u>	<u>1,647,816</u>	<u>1,836,124</u>
Cash and cash equivalents - end of period	<u>\$ 217,759</u>	<u>\$ 1,907,572</u>	<u>\$ 2,125,331</u>
Reconciliation of operating income (loss) to net cash provided (used in) operating activities:			
Operating income (loss)	<u>\$ 13,750</u>	<u>\$ 186,976</u>	<u>\$ 200,726</u>
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	276,198	148,322	424,520
Changes in certain assets and liabilities:			
Accounts receivable	(207)	3,928	3,721
Accounts payable	(21,366)	(2,004)	(23,370)
Due to/from other funds	(49,350)	49,350	-
Compensated absences	(3,102)	1,225	(1,877)
Pension expense	29,374	36,465	65,839
Total adjustments	<u>231,547</u>	<u>237,286</u>	<u>468,833</u>
Net cash provided (used) by operating activities	<u>\$ 245,297</u>	<u>\$ 424,262</u>	<u>\$ 669,559</u>

The accompanying notes are an integral part of these financial statements.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Alturas (the City) was incorporated September 16, 1901 under the general laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City operates under a Council-Manager form of government and provides the following services as authorized: Public Safety (police, fire and civil defense), highways and streets, sanitation, health and social services, culture/recreation, education, public improvements, planning and zoning, and general administrative services. The City also provides the Water and Sewer services.

As required by U.S. generally accepted accounting principles, the financial statements of the City of Alturas have no component units. The accompanying basic financial statements present the financial activity of the City, which is the primary government.

B. Basis of Presentation

The City's basic financial statements are prepared in conformity with U.S. generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A. These standards require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Major Funds

GASB Statement 34 defines major funds and requires that the City's major governmental and business-type funds be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds.

The City reported the following major governmental funds in the accompanying financial statements:

General Fund: This is used for all the general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The General Fund accounts for all financial resources of a governmental unit that are not accounted for in another fund.

Special Road Fund: This fund accounts for road projects funded by governmental grants.

John Wall Trust Fund: This fund accounts for the costs of youth projects funded by the estate of John Wall.

Wind Damage Fund: This fund accounts for wind damage projects funded by governmental grants.

The City reported all its enterprise funds as major funds in the accompanying financial statements:

Water Fund: This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Alturas.

Sewer Fund: This fund accounts for all financial transactions relating to the City's Wastewater Collection and Treatment. Services are on a user charge basis to residents and business owners located in Alturas.

D. Basis of Accounting

Government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and full *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when "measurable" and "available". The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (concluded)

Those revenues susceptible to accrual are property, sales and franchise taxes, certain other intergovernmental revenues, certain charges for services and interest revenue. Fines, licenses and permits, and charges for services are not susceptible to accrual because they are not measurable until received in cash.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The City may fund programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. Revenue Recognition for Water and Sewer Funds

Revenues are recognized based on cycle billings rendered to customers. All residential and commercial utility customers are billed once per month. There is one billing cycle per month that includes all types of customers, based on their location within the City. Revenues for services provided but not billed at the end of a fiscal year are accrued.

Contributions of cash or assets to proprietary funds from state and federal agencies, developers and others are recorded as revenue.

F. Property Tax

Modoc County (the County) assesses properties and bills, collects and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on July 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed provided they become available as defined above.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Compensated Absences

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences accumulate and are accrued when they are earned. The City's liability for compensated absences is recorded in various governmental funds or proprietary funds as appropriate. The liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Position. The amount of accrued sick pay is not due upon termination and therefore is not recorded as a liability of the City.

The net changes of compensated absences are as follows:

	Governmental Activities	Business-type Activities	Total
Beginning balance	\$ 35,645	\$ 25,356	\$ 61,001
Additions	4,737	-	4,737
Payments	-	(1,877)	(1,877)
Ending balance	<u>\$ 40,382</u>	<u>\$ 23,479</u>	<u>\$ 63,861</u>
Current portion	<u>\$ 40,382</u>	<u>\$ 23,479</u>	<u>\$ 63,861</u>

The General Fund has been used to liquidate compensated absences.

H. Budgets and Budgetary Accounting

The City Council annually adopts a budget by December 31 of the fiscal year for all governmental fund types. The budgeted expenditures become the appropriations to the various departments. The budget includes estimates for revenue that, along with the appropriations, compute the budgetary fund balance. The City Council may amend the budget at any time.

The City Finance Manager may transfer funds from one object purpose (personnel services, operating expenditures or capital outlay expenditures) to another within the same department without changing the total budget of a department. A department head may transfer funds from like object categories of the same department with the Finance Director's approval. The City Council must approve changes to departmental level. All unused appropriations lapse at year-end. The City Council adopts governmental fund budgets consistent with U.S. generally accepted accounting principles as legally required.

There are no significant non-budgeted financial activities. Revenues for special revenue funds are budgeted by entitlements, grants and estimates of future development and economic growth. Expenditures and transfers are budgeted based upon available financial resources. Expenditures may not legally exceed budget appropriations at the fund type level.

On or before April 1 of each year, each department submits data to the City Finance Manager for budget preparation. Staff prepares the budget by fund, function, and activity. The budget includes information on past years, current year estimates, and requested appropriations for the next fiscal year. Before June 30, the City Council receives the proposed budget.

The City Council holds public hearings and may amend the budget by a majority vote. Any changes to the budget must be within the available revenues and reserves.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

H. Budgets and Budgetary Accounting (concluded)

The City uses an encumbrance system as an aid in controlling expenditures. When the City issues a purchase order for goods or services, it records an encumbrance until the vendor delivers the goods or performs the service. Encumbrances outstanding at year-end lapse unless encumbered by specific Council approval.

I. Excess of Expenditures over Appropriations

The City had no funds that had incurred expenditures in excess of their budgets.

J. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, and as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

K. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the City recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the City that is applicable to a future reporting period.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 - CASH AND INVESTMENTS

The City pools cash from all sources and all funds, except certain specific investments within funds and cash with fiscal agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Categorization of Credit Risk of Securities Instruments

The City and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system.

Individual investments are generally made by the City's fiscal agents as required under its debt issues. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all City managed investments, regardless of their form.

Investments are carried at fair value and are categorized as follows at June 30, 2018:

<u>Pooled Investments (not rated):</u>	
State of California Local Agency Investment Fund (LAIF)	\$ 6,004,845
Subtotal investments	6,004,845
<u>Cash Deposits with Banks (not rated):</u>	
Total cash and investments	\$ 6,347,649

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agency agreements.

Cash and investments in City Treasury	\$ 6,347,649
Restricted cash and investments	-
Total City cash and investments	\$ 6,347,649

Cash and investments are used in preparing Proprietary Fund statements of cash flows because these assets are highly liquid and are expended to liquidate liabilities arising during the year.

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for deposits and investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law (Government Code Section 53630) requires banks and savings and loan associations to pledge government securities with a market value of 110% of the City's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in a common pool for the City and other governmental agencies but not in the name of the City. The carrying amount of the City's cash deposits was \$884,982 at June 30, 2018.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that in the event of the failure of a counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments in LAIF are not evidenced by specific securities and therefore, are not subject to custodial credit risk.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (continued)

A. Categorization of Credit Risk of Securities Instruments (concluded)

Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the City as of June 30, 2018:

<u>Investment Type</u>	<u>Level 2</u>	<u>Exempt</u>	<u>Total</u>
California Local Agency Investment Fund	\$ 6,004,845	\$ -	\$ 6,004,845
Total investments	<u>\$ 6,004,845</u>	<u>\$ -</u>	<u>6,004,845</u>
Cash in banks (Held by Trustees)			-
Cash in banks and on hand			<u>342,804</u>
Total cash and investments			<u>\$ 6,347,649</u>

The California Local Agency Investment Fund (LAIF) classified in Level 2 of the fair value hierarchy, is valued using quoted prices for a non-active market portfolio at fiscal year end. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by the custodian bank.

B. Authorized Investments

The City's investment policy and section 53601 of the California Government Code allow the following investments: a) Certificates of Deposit; b) Obligations of the State of California.

The City does not enter into reverse repurchase agreements.

The City's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end if material, and includes the effects of these adjustments in income for that fiscal year.

The City places certain funds with the State of California's Local Agency Investment Fund (LAIF). The City is a voluntary participant in LAIF, which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's office pools these funds with those of other governmental agencies in the state and invests the cash. The fair value of the City's investment in this pool is reported in the accompanying financial statements based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio).

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 - CASH AND INVESTMENTS (concluded)

B. Authorized Investments (concluded)

The monies held in the pooled investment funds are not subject to categorization by risk category. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on the amortized cost basis. Funds are accessible and transferable to the master account with twenty-four hours notice. Financial statements for LAIF can be obtained from the California State Treasurer's Office: State Treasurer's Office, 915 Capitol Mall, Suite 110, Sacramento, CA 95814.

NOTE 3 - INTER-FUND TRANSACTIONS

Internal Balances: Internal balances are presented in the City-wide financial statements only. They represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

NOTE 4 - CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. City policy has set the capitalization threshold for reporting capital assets at the following:

General capital assets	\$ 8,000
Infrastructure capital assets	25,000

GASB Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed, unless they are additions or improvements.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro-rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

The City has assigned the useful lives listed below to capital assets:

Buildings	20-40 years
Improvements	40 years
Machinery and equipment	3-6 years
Streets and roads	20 years
Curb, gutter, sidewalks & median curbs	20 years
Storm drains	75 years
Traffic signals	20 years
Water and Sewer Lines	40 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 4 - CAPITAL ASSETS (concluded)

	Balance 7/1/17	Additions	Deletions	Balance 6/30/18
Land (not depreciated)	\$ 80,000	\$ -	\$ -	\$ 80,000
Buildings	580,161	-	-	580,161
Streets and roads	2,711,812	125,002	-	2,836,814
Equipment	<u>1,738,982</u>	<u>199,088</u>	-	<u>1,938,070</u>
Subtotal	5,110,955	<u>\$ 324,090</u>	<u>\$ -</u>	5,435,045
Accumulated depreciation	<u>(3,456,404)</u>			<u>(3,750,722)</u>
Net book value	<u>\$ 1,654,551</u>			<u>\$ 1,684,323</u>

The changes in proprietary fund types fixed assets for the fiscal year are:

	Balance 7/1/17	Adjustments	Deletions	Balance 6/30/18
Wells	\$ 32,000	\$ -	\$ -	\$ 32,000
Water lines	5,576,948	-	-	5,576,948
Plant and equipment	<u>6,388,426</u>	-	-	<u>6,388,426</u>
Subtotal	11,997,374	<u>\$ -</u>	<u>\$ -</u>	11,997,374
Accumulated depreciation	<u>(6,187,485)</u>			<u>(6,473,803)</u>
Net book value	<u>\$ 5,809,889</u>			<u>\$ 5,523,571</u>

Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program are as follows:

Governmental Activities

Public Works	<u>\$ 294,317</u>
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Business-type Activities

Water	\$ 148,322
Sewer	<u>276,198</u>
Total Business-type Activities	<u>\$ 424,520</u>

NOTE 5 - LONG-TERM DEBT

A. Changes in Long-Term Debt

The following is a summary of debt transactions of the City for the year ended June 30, 2018:

	Beginning	Additions	Retirements	Balance	Due in one Year
Business-type Activities					
Water lines	\$ 2,203,369	\$ -	\$ 114,790	\$ 2,088,579	\$ 118,727
Sewer treatment plant	<u>989,122</u>	-	<u>72,105</u>	<u>917,017</u>	<u>73,835</u>
Total	<u>\$ 3,192,491</u>	<u>\$ -</u>	<u>\$ 186,895</u>	<u>\$ 3,005,596</u>	<u>\$ 192,562</u>

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 5 - LONG-TERM DEBT (concluded)

B. U.S. Government Loan

The U.S. Government Loan is for replacing the City's water lines. The original loan amount of \$3,738,860 was refinanced with Mission National Bank in December 2016 for \$2,269,470. This new loan will mature on June 27, 2032 and is payable as to principal and interest in December and June each year. The interest rate is 3.40%.

The annual requirements to amortize the loan outstanding as of June 30, 2018, including interest payments, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 118,727	\$ 70,011	\$ 188,738
2020	122,797	65,941	188,738
2021	127,008	61,730	188,738
2022	131,363	57,375	188,738
2023	135,867	52,871	188,738
2024	140,526	48,212	188,738
2025	145,345	43,393	188,738
2026	150,329	38,409	188,738
2027	155,483	33,255	188,738
2028	160,814	27,924	188,738
2029	166,328	22,410	188,738
2030	172,032	16,706	188,738
2031	177,930	10,808	188,738
2032	184,030	4,708	188,738
Total	<u>\$ 2,088,579</u>	<u>\$ 553,753</u>	<u>\$ 2,642,332</u>

C. State Water Loan

The State Water Loan is for the construction of the City's Waste Water Treatment Plant. The original loan amount of \$1,600,000 will mature on July 10, 2028 and is payable as to principal and interest in July of each year. The interest rate is 2.4%. The outstanding loan amount as of June 30, 2018 is \$1,128,302. The annual requirements to amortize the loan outstanding as of June 30, 2018, including interest payments, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 73,835	\$ 22,008	\$ 95,843
2020	75,607	20,237	95,844
2021	77,422	18,422	95,844
2022	79,280	16,564	95,844
2023	81,183	14,661	95,844
2024	83,131	12,713	95,844
2025	85,126	10,718	95,844
2026	87,169	8,674	95,843
2027	89,261	6,583	95,844
2028	91,403	4,440	95,843
2029	93,600	2,244	95,844
Total	<u>\$ 917,017</u>	<u>\$ 137,264</u>	<u>\$ 1,054,281</u>

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN

Plan Description: Based on PERS eligibility criteria all qualified permanent and probationary employees are eligible to participate in the City's following cost-sharing multiple employer defined benefit pension plans (Plans):

- City Miscellaneous (Tier 1)
- City Miscellaneous (Tier 2 - PEPRRA)
- City Safety (Tier 1)
- City Safety (Tier 2 - PEPRRA)

The Plans are administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided - CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. The applicable PERS plan depends on the employee classification and hire date. In some situations hiring of an employee who was previously an active member in PERS results in the "Classic" Plan benefit regardless of the date of hiring.

The Plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Miscellaneous	
	Prior to August 1, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensations	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8%	6.25%
Required employer contribution rates	12.698%	6.533%
	City Safety	
	Prior to January 1, 2012	On or after January 1, 2013
Hire date		
Benefit formula	3% @ 50	2.7% @ 57
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	50 - 57
Monthly benefits, as a % of eligible compensations	3%	2.0% to 2.7%
Required employee contribution rates	9%	11.5%
Required employer contribution rates	17.875%	11.99%

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (continued)

The City's Miscellaneous and Safety Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees' Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as "risk pools"), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The City sponsors six rate plans (three miscellaneous and three safety).

Contributions - Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, the contributions recognized as part of pension expense for each Plan were as follows:

	<u>Miscellaneous</u>
Employer Contributions	\$168,333
Employer Contributions	<u>Safety</u>
	\$100,167

As of June 30, 2018, the City reported net pension liabilities for its proportionate shares of the net pension liability of the Miscellaneous and Safety Plans as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$ 2,042,186
Safety	<u>1,235,976</u>
Total Net Pension Liability	<u><u>\$ 3,278,162</u></u>

The City's net pension liability for the Plans is measured as the proportionate share of the net pension liability. The net pension liability of the Plans is measured as of June 30, 2016, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2015 and 2016 was as follows:

<u>All Plans</u>	<u>All Plans</u>
Proportion - June 30, 2015	.02123%
Proportion - June 30, 2016	.02059%
Change – Increase (Decrease)	.006%

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (continued)

For the year ended June 30, 2018, the City recognized pension expense of \$245,872. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 292,951	\$ -
Differences between actual and expected experience	16,693	36,780
Changes in assumptions	494,711	37,820
Change in employer's proportion	21,732	48,783
Net differences between projected and actual earnings on plan investments	110,189	-
Differences between actual contributions vs proportionate share of contributions	<u>7,901</u>	<u>60,320</u>
Total	<u>\$ 944,177</u>	<u>\$ 183,703</u>

\$292,951 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ended June 30</u>	
2019	78,311
2020	283,388
2021	170,854
2022	(65,031)
Thereafter	-

Actuarial Assumptions - The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15% (1)
Mortality	Derived using CalPERS Membership Data for all Funds (2)

(1) Net of pension plan investment expenses, including inflation.

(2) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (continued)

Change in assumptions – In 2017, the accounting discount rate was reduced from 7.65% to 7.15%.

Discount Rate - The discount rate used to measure the total pension liability was 7.15% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement Nos. 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as they have changed their methodology.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10</u>	<u>Real Return Years 11+</u>
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80	2.27%
Inflation Sensitive	6%	0.60	1.39%
Private Equity	12%	6.60	6.63%
Real Estate	11%	2.80	5.21%
Infrastructure and Forestland	3%	3.90	5.36%
Liquidity	<u>2%</u>	(0.40)	(0.90)%
Total	<u>100%</u>		

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 6 - CITY EMPLOYEES' RETIREMENT PLAN (concluded)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

1% Decrease	6.15%
Net Pension Liability	\$4,910,393
Current Discount Rate	7.15%
Net Pension Liability	\$3,278,162
1% Increase	8.15%
Net Pension Liability	\$1,933,743

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

NOTE 7 - LITIGATION CONTINGENCY

The City is a defendant in various lawsuits and other claims. Although the outcomes of these lawsuits are not presently determinable, it is the opinion of the City's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

NOTE 8 - RISK MANAGEMENT

The City manages risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters by participating in the public entity risk pools described below.

Public entity risk pools are formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, those entities exercise full powers and authorities within the scope of the related Joint Powers Agreements including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued.

Each risk pool is governed by a board consisting of representatives from member municipalities. Each board controls the operations of the respective risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on that board. Obligations and liabilities of these risk pools are not the City's responsibility.

The City is a member of a program through which certain specified and limited self-insured workers' compensation and employer's liability risks are administered by PARSAC and shared by its participating members.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

NOTE 8 - RISK MANAGEMENT (concluded)

Complete audited financial statements for PARSAC can be obtained from PARSAC's office at 1525 Response Road, Suite One, Sacramento, CA 95815.

The program period runs one year. The City has workers' compensation and employer's liability. The City has a general liability self-insurance retention level of \$10,000. The self-insurance retention level is somewhat similar to a deductible.

Maximum Amounts of Protection: Program Maximum Amounts of Protection for each accident or each employee for disease are:

a. Workers' Compensation	\$250,000
b. Employer's Liability	\$250,000
c. Workers' Compensation and Employer's Liability combined	\$250,000

Limit of Protection: \$995,000 Ultimate Net Loss as the result of any one occurrence because of Bodily Injury, Property Damage, Personal Injury, or Public Officials Errors and Omissions or any combination thereof in excess of the retained limit.

Retained Limit: \$5,000 Ultimate Net Loss as the result of any one occurrence because of Bodily Injury, Property Damage, Personal Injury, or Public Officials Errors and Omissions or any combination thereof. The City contributed \$390 for coverage during the year.

NOTE 9 - NET POSITION AND FUND BALANCES

GASB Statement 34 added the concept of Net Position, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Position

Net Position is the excess of all the City's assets over all its liabilities, regardless of fund. Net Position is divided into three captions under GASB Statement 34. These captions apply only to Net Position, which is determined only at the Government-wide level, and are described below:

Invested in Capital, net of related debt describes the portion of Net Position that is represented by the current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Position that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the City cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Position that is not restricted as to use.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - NET POSITION AND FUND BALANCES (continued)

B. Fund Balances

The accompanying basic financial statements reflect certain changes that have been made with respect to the reporting components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance. Due to the implementation of GASB Statement 54, the components of the fund balances of governmental *funds* now reflect the component classifications described below. In the fund financial statements, governmental fund balances are reported in the following classifications:

Nonspendable fund balance includes amounts not in a spendable form, such as prepaid items or supplies inventories, or that are legally or contractually required to remain intact, such as principal endowments.

Restricted fund balance includes amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e., creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level decision-making authority. The City Council serves as the City's highest level decision-making authority and has the authority to establish, modify or rescind a fund balance commitment via minutes action.

Assigned fund balance includes amounts intended to be used by the City for specific purposes, subject to change, as established either directly by the City Council or by management officials to whom the assignment authority has been delegated by the City Council.

Unassigned fund balance is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the City's policy specifies that restricted revenues will be applied first. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the City's policy is to apply committed fund balances first, then assigned fund balances, and finally unassigned fund balances.

C. Fund Balance and Net Position Deficits

The following funds had deficit fund balances at June 30, 2018. Deficits will be covered by future revenues and/or General Fund transfers.

Special Revenue Funds		
Fund 13 Natural Gas	Fund 30 Airport Grant	Show Grounds
Fund 21 Nuisance Grant	Fund 194 Obstruction Survey	Fund 195 Pavement
Police Grant Fund 23	Fund 45 Snow Removal Grant	Management
FAA Grant Fund 193	Fund 42 Chip Seal Grant	FAA Grant Fund 196

The Special Revenue funds are expected to have their deficit eliminated through grant reimbursements for prior year expenditures and transfers from the General Fund.

City of Alturas
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018

NOTE 9 - NET POSITION AND FUND BALANCES (concluded)

D. Prior Period Adjustment

The prior period adjustment represents changes to the Water Funds capital assets resulting from conducting a physical inventory and review of capital assets lives used to calculate depreciation charges.

NOTE 10 - TRANSFERS

Transfers between funds during the fiscal year ended June 30, 2018 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ -	\$ 54,171
Special Revenue:		
Special Road Fund	-	55,000
Traffic Safety	4,223	-
Asset Seizures	-	4,223
Cops	17,648	-
LAFCO	21,335	-
National Power	155	-
DOA Loan	7,480	-
Grant Fire	12,550	-
Airport	-	7,480
Nuisance Grant	10,000	-
PD Grant	5,286	-
Cops in school	-	17,648
Snow removal	55,000	-
Show Grounds Grant	7,000	-
Pool	5,000	-
Community Project	-	7,155
Total	<u>\$ 145,677</u>	<u>\$ 145,677</u>

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Alturas
Required Supplemental Information
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Budget and Actual
For the year ended June 30, 2018
(Unaudited)

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Revenues:				
Taxes	1,183,850	\$ 1,183,850	\$ 1,134,740	\$ (49,110)
Licenses and permits	119,745	119,745	107,630	(12,115)
Fines and forfeitures	19,205	19,205	20,545	1,340
Use of money and property	21,000	21,000	22,891	1,891
Intergovernmental revenue	55,500	55,500	65,503	10,003
Other revenues	950	950	25,483	24,533
Total revenues	<u>1,400,250</u>	<u>1,400,250</u>	<u>1,376,792</u>	<u>(23,458)</u>
Expenditures:				
Current:				
General government	387,464	387,464	302,875	84,589
Public safety	1,022,630	1,022,630	1,035,106	(12,476)
Planning and public works	51,036	51,036	48,785	2,251
Total expenditures	<u>1,461,130</u>	<u>1,461,130</u>	<u>1,386,766</u>	<u>74,364</u>
Excess of revenues over (under) expenditures	<u>(60,880)</u>	<u>(60,880)</u>	<u>(9,974)</u>	<u>50,906</u>
Other financing sources (uses):				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	<u>(51,623)</u>	<u>(51,623)</u>	<u>(54,171)</u>	<u>2,548</u>
Total other financing sources (uses)	<u>(26,623)</u>	<u>(26,623)</u>	<u>(54,171)</u>	<u>(22,452)</u>
Net change in fund balance	<u>\$ (87,503)</u>	<u>\$ (87,503)</u>	(64,145)	<u>\$ 28,454</u>
Fund balance, beginning of period			<u>650,017</u>	
Fund balance, end of period			<u>\$ 585,872</u>	

City of Alturas
As of June 30, 2018

Last 10 Years

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

<u>Fiscal Year Ending June 30</u>	<u>All Plans</u>			
Schedule of the Proportionate Share	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
of the Net Pension Liability				
Proportion of the net pension liability	0.0331%	0.0529%	0.0532%	0.0529%
Proportionate share of the net pension liability	\$ 3,278,162	\$ 1,836,825	\$ 1,459,498	\$ 1,307,242
Covered - employee payroll	\$ 967,632	\$ 506,258	\$ 444,642	\$ 442,301
Proportionate share of the net pension liability as a percentage of covered-employee payroll	338.78%	362.82%	328.24%	295.55%
Plan fiduciary net position as a percentage of the total pension liability	27.82%	73.40%	77.85%	79.99%

NOTES TO SCHEDULE:

Changes in Benefit Terms - None

Changes in Assumptions - None

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

*Fiscal year 2015 was the 1st year of implementation

City of Alturas
As of June 30, 2018

Last 10 Years

SCHEDULE OF CONTRIBUTIONS

<u>SCHEDULE OF CONTRIBUTIONS</u>	All Plans			
	2017	2016	2015	2014
Contractually required contribution (actuarially determined)	\$ 268,500	\$ 159,120	\$ 113,466	\$ 95,183
Contributions in relation to the actuarially determined contributions	<u>(268,500)</u>	<u>(149,977)</u>	<u>(136,950)</u>	<u>(95,183)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ 9,143</u>	<u>\$ (23,484)</u>	<u>\$ -</u>
Covered-employee payroll during the fiscal year	\$ 967,632	\$ 506,258	\$ 444,642	\$ 442,301
Contributions as a percentage of covered-employee payroll	27.75%	31.43%	25.52%	21.52%

NOTES TO SCHEDULE:

Changes in Benefit Terms - None

Changes in Assumptions - None

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

*Fiscal year 2015 was the 1st year of implementation

REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

To the Honorable Members
of the City Council
City of Alturas
Alturas, California

We have audited the basic financial statements of City of Alturas as of and for the year ended June 30, 2018, and have issued our report thereon dated December 18, 2018. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the U.S. Comptroller General.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Alturas's internal control over financial reporting as a basis for designing our auditing procedures, for the purpose of expressing our opinion on City of Alturas's financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Alturas's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Alturas's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Alturas's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Honorable Members of the City Council
City of Alturas- Page 2

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of City of Alturas's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Alturas's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
December 18, 2018